

School District of the  
City of Muskegon Heights

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2008

School District of the City of Muskegon Heights

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**Muskegon Heights Public Schools**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

This section of Muskegon Heights Public Schools' annual report represents an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. Please review in conjunction with the financial statements and notes to the financial statements to enhance an understanding of the district's financial performance.

The Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements adopted this reporting model – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### **Overview of the Financial Statements**

This annual report consists of five parts: (1) management's discussion and analysis, (2) independent auditors' report, (3) the basic financial statements, (4) required supplementary information, and (5) statistical data, unaudited. The financial statements include notes that explain information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the district's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the district.

### **District-wide Financial Statements**

The District-wide financial statements are full accrual basis statements that provide information about the district's **overall** financial status. They are used to help determine whether or not the District is better off, or worse off, as the result of the year's activities. The ***Statement of Net Assets*** reports all of the district's assets and liabilities, both short-term and long-term, whether they are "currently available" or not. Capital assets and long-term obligations of the district are reported in this statement. All of the current year's revenues and expenses are accounted for in the ***Statement of Activities***, regardless of when cash is received or paid.

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Management's Discussion and Analysis  
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The two district-wide statements report the district's ***net assets*** and how they have changed. Net assets – the difference between the district's assets and liabilities – is one way to measure the district's financial position.

- Over time, increases or decreases in net assets are an indicator of whether the district's financial position is improving or deteriorating.
- To assess the district's overall health, you need to consider additional non-financial factors such as changes in the district's property tax base, the quality of the education provided, and the condition of the district's buildings.

In district-wide statements, the district's activities are classified as ***governmental activities***. This includes most of the District's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes, state aid, and state and federal grants finance most of these services.

**Fund Financial Statements**

The fund financial statements focus on individual parts of the district, while reporting the district's operations in more detail than the district-wide statements. The fund level statements are reported on a ***modified accrual basis***. Only those assets that are "***measurable***" and "***currently available***" are reported. Liabilities are recognized to the extent that they are paid with current financial resources.

Fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the district's major instructional and instructional support activities are reported in the ***General Fund***. Additional activities are reported in their relevant funds including: ***Food Service, Athletics, Debt Service, Capital Projects, and Fiduciary Funds***.

In fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**Muskegon Heights Public Schools**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

**Financial Analysis of the District as a Whole**

The net assets of the district at June 30, 2008 amounted to \$536 thousand. Figure A-1 shows a condensed breakdown of the net assets. The increase in total assets stems from higher capital project investment activities during the 2007/08 school year. The increase in total liabilities results from obligations associated with the aforementioned investment activities.

**Figure A-1**  
**Condensed Statement of Net Assets**

	<b>Governmental Activities</b>	
	<u><b>June 30, 2008</b></u>	<u><b>June 30, 2007</b></u>
Current Assets	\$ 6,738,205	\$ 6,692,437
Capital Assets, net	28,261,516	26,121,478
Other Non Current Assets	1,044,504	973,786
<b>Total Assets</b>	<u><b>36,044,225</b></u>	<u><b>33,787,701</b></u>
Current Liabilities	8,316,580	7,380,071
Non Current Liabilities	27,191,002	25,245,776
<b>Total Liabilities</b>	<u><b>35,507,582</b></u>	<u><b>32,625,847</b></u>
Net Assets		
Invested in Capital Assets, net of related debt	3,538,982	4,515,191
Restricted for:		
Debt Service	-	14,041
Unrestricted	<u>(3,002,339)</u>	<u>(3,367,378)</u>
<b>Total Net Assets</b>	<u><b>\$ 536,643</b></u>	<u><b>\$ 1,161,854</b></u>

The largest portion of the District's net assets reflects investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Muskegon Heights Public Schools**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

Figure A-2 provides the detail behind this change. The Statement of Activities presented later in the government-wide financial statements provides greater depth of the District's annual activity. The cost of the District's governmental activities for the year was \$26.6 million.

Revenues classified under "charges for services" include amounts received for special education transportation and other receipts from those who have benefited from the related programs. Revenue generated from operating grant and contribution activities declined due to lower district participation in those activities. Downward adjustments in unrestricted grants and contributions were the result of lower student enrollment.

Total functional expenses increased in general due to the allocation of depreciation to the functional areas. Due to decreasing enrollment and a decrease in federal funding, this increase was off-set by an overall reduction in expense, as well as a shift towards instructional services from support services.

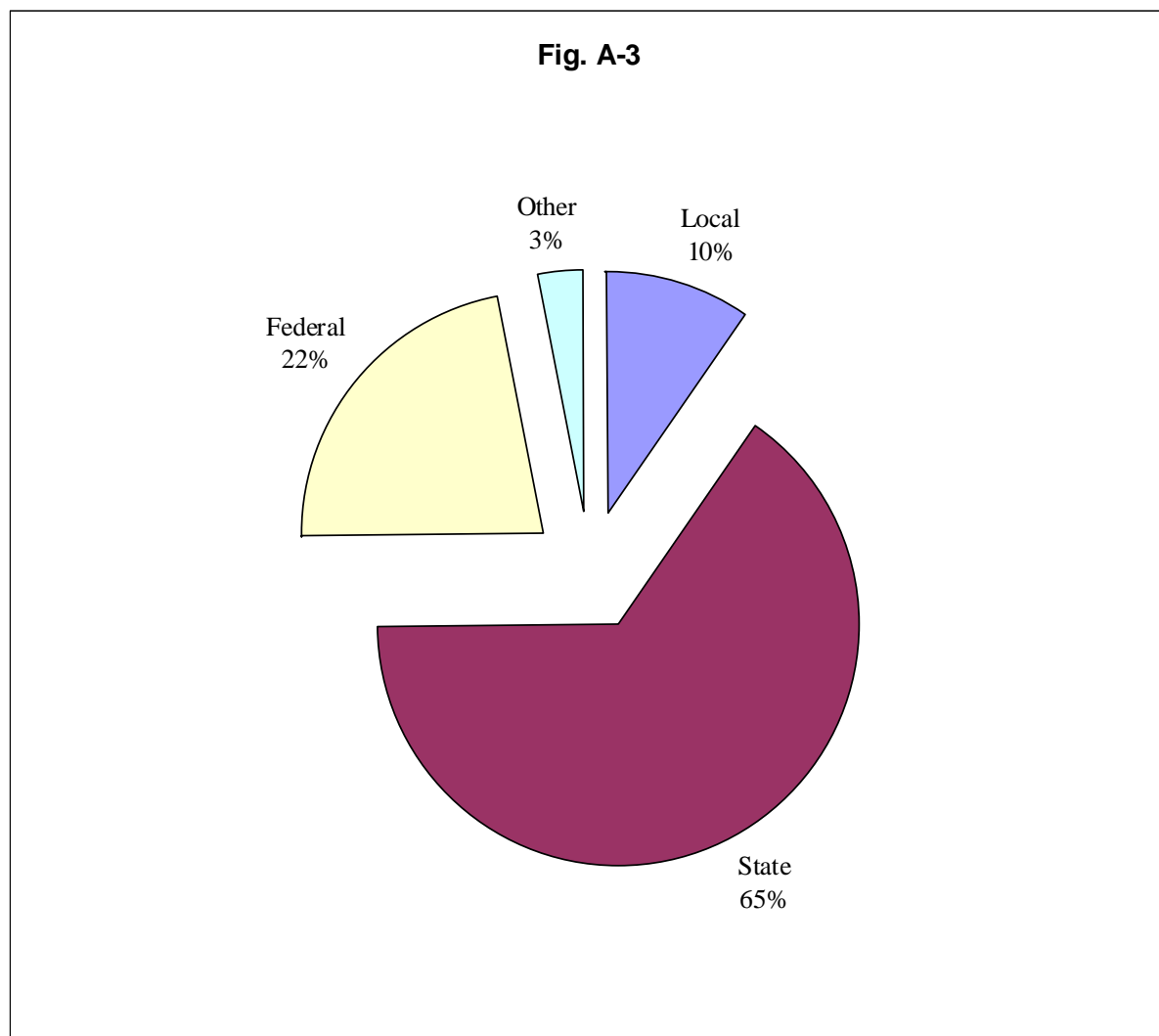
<b>Figure A-2</b>		
<b>Statement of Net Assets from Operating Results</b>		
For the Period Ending: June 30,	<b>Governmental Activities</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenues</b>		
Program Revenues		
Charges for Services	\$ 677,222	\$ 555,716
Operating Grants and contributions	9,127,825	9,735,793
General Revenues		
Property taxes	3,265,512	3,159,240
Unrestricted grants and contributions	12,839,700	13,601,576
Other	181,440	119,845
<b>Total revenues</b>	<b>26,091,699</b>	<b>27,172,170</b>
<b>Expenses</b>		
Instruction	12,810,577	12,143,708
Support services	9,915,149	10,409,963
Community services	1,206,024	1,003,238
Food services	1,198,123	1,156,590
Athletics	324,532	314,734
Interest on long-term debt	1,161,794	1,179,993
<b>Total expenses</b>	<b>26,616,199</b>	<b>26,208,226</b>
<b>Other changes</b>		
Depreciation and amortization	(100,711)	(1,215,616)
<b>Increase (decrease) in net assets</b>	<b>(625,211)</b>	<b>(251,672)</b>
<b>Beginning net assets</b>	1,161,854	1,413,526
<b>Ending net assets</b>	<b>\$ 536,643</b>	<b>\$ 1,161,854</b>

## Muskegon Heights Public Schools

### Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

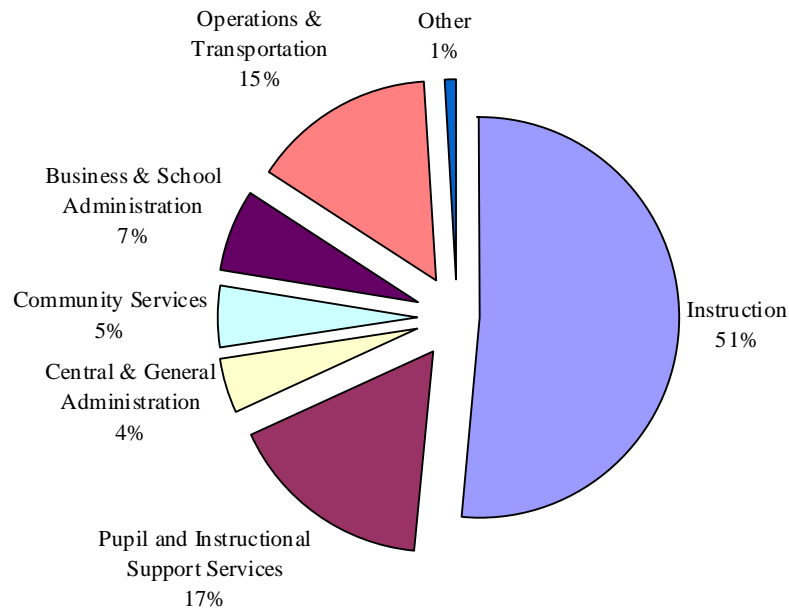
A substantial portion (65%) of the District's revenue is received from State sources. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. Figure A-3 depicts the breakdown of the sources of revenue for the District.



**Muskegon Heights Public Schools**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

As Figure A-4 depicts, 68% of the District's resources are spent on instruction and pupil support services. Another 11% is spent on administrative and business services necessary to efficiently operate the District, while 15% is spent for building operation and maintenance, including utilities, custodial services and transportation. The final 6% is spent on interest, community, and other support services.

**Figure A-4**  
**Expenditures for Fiscal Year 2007/08**





**Muskegon Heights Public Schools**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

**Financial Analysis of the District's Funds**

The financial performance of the district as a whole is reflected in its governmental funds as well. The General Fund fund balance increased by \$268,515 during the 2007/08 fiscal year, resulting in fund deficit of \$502,864 at year-end. The primary operational reasons for the deficit reduction are as follows:

**Factors Impacting Operations**

*Participation in Qualified Zone Academy Bond (QZAB) Program* – During the 2007/08 school year, the district took significant steps towards reducing its overall energy costs. By participating in the QZAB program, the district was able to modernize existing electrical and heating structures, resulting in increased energy efficiency and performance. These improvements will be paid from operating cost savings over the next 15 years.

*Reduction of Employees Through Attrition* – A small number of positions from which employees retired were not replaced during the 2007/08 school year.

*Reduction in State Retirement Costs* – The State of Michigan retirement rate decreased from 17.74% to 16.72% effective October 1, 2007.

**General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget semi-annually during the school year. These revisions are designed to address unexpected changes in revenues and expenditures that may or may not occur during the school year. The following analysis details the reasons for changes in the budget during the year.

Revenues – There was a \$380,000 (1.6%) increase in the total General Fund revenue budget from the beginning to the end of the year. The major changes in funding sources are as follows:

- The *local source* revenue budget decreased by \$236,000 due to less than expected special education transportation revenue.
- The *state source* revenue budget decreased by \$598,000. The decrease was due to a reduction in student enrollment.
- The *federal source* revenue budget increased by \$1.3 million primarily due to the inclusion of unused “carryover” funds and deferred federal revenue earned but not received during the 2006/07 school year.

## Muskegon Heights Public Schools

### Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Expenditures – The budgetary changes by functional category are as follows:

- The budget for *instructional services* decreased by \$98,600 due primarily to lower planned summer school and special education costs.
- The budget for *pupil support services* increased by \$103,000 resulting from greater planned spending in special education support services.
- The budget for *instructional support services* increased by \$252,000 because of higher than expected supplemental fund allocations, specifically Title I-A and Title II-A.
- The budget for *operations and maintenance* decreased by \$90,000 due to projected energy savings.
- The *community services* section of the budget increased by \$162,000 because of projected increases in both Head Start and Adult Education program costs.

### Amended Budget v. Actual Results

#### *Revenues*

- The *local source* revenues were \$160,000 higher than budgeted because of greater than expected special education transportation and local tax revenue
- The *state source* revenues decreased due to deferring At-Risk funding not fully expended to the next fiscal year.
- The *federal source* revenues decreased due to deferring earned revenue to the next fiscal year, along with re-allocating the unused portion of the district's Title I and Title II-A grant allocations to the next fiscal year.

#### *Expenditures*

- The *basic programs* expenditures were lower than expected by \$600,000 due to the reduction of instructional staffing through attrition, lower than expected retiree hospitalization costs, and lower supplies and materials spending.
- The *added needs* expenditures were lower than expected by \$217,000 due to lower than expected staffing and supplemental service costs.
- The *support services* expenditures were \$172,000 higher than expected because of greater energy costs.

**Muskegon Heights Public Schools**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

**Capital Assets and Debt Administration**

*Capital Assets* – At June 30, 2008, the District had over \$28.2 million in net capital assets, including land, buildings, furniture and equipment as shown below. During the 2007/08 school year, the district modernized its electrical and mechanical systems, completed the high school football press-box, finished the roofing projects at its Lindbergh and Roosevelt facilities, and re-surfaced the high school track.

	<u>2008</u>	<u>2007</u>
Land	\$ 1,475,734	\$ 1,475,734
Construction in progress	2,725,000	172,241
Land Improvements	172,257	176,256
Buildings and Improvements	22,646,069	22,870,876
Equipment	1,187,402	1,347,826
Vehicles	<u>55,054</u>	<u>78,545</u>
<b>Total</b>	<b>\$ <u>28,261,516</u></b>	<b>\$ <u>26,121,478</u></b>

More detailed information about capital assets can be found in Note D of these financial statements.

*Debt Administration* – At June 30, 2008, the District had \$28.4 million in general obligation bonds and other long-term debt outstanding as shown below.

	<u>2008</u>	<u>2007</u>
1999 Building General Obligation Bonds	\$ 620,000	\$ 1,205,000
2006 Building General Obligation Bonds	21,610,715	21,590,590
0% 2007 Energy Conservation Improvement Bonds	3,149,000	-
Durant Bond Obligations	491,742	491,742
School Bond Loan Fund	2,214,987	2,430,343
Early Retirement Incentives and Compensated Absences	325,375	313,183
Capital Leases and other	<u>32,083</u>	<u>154,897</u>
<b>Total</b>	<b>\$ <u>28,443,902</u></b>	<b>\$ <u>26,185,755</u></b>

More detailed information about long-term debt can be found in Note I of these financial statements.

**Muskegon Heights Public Schools**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2008

**Currently Known Facts, Decisions, and Conditions**  
**Affecting the 2008/2009 Fiscal Year**

- The State of Michigan currently begins their State Aid payment cycle in late October, creating a two-month window in which the district will not receive state foundation funding. To assist in meeting September and October obligations, the district will borrow \$3,200,000 in August 2008. This note will mature in August 2009.
- The state retirement rate has decreased to 16.54% from 16.72% in the prior year.
- The district is experiencing declining enrollment.
- There has been a nominal increase in the State of Michigan per pupil funding allocation

**Requests for Information**

This financial report is designed to provide the district's citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances, and to show how the District is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Mr. Dana M. Bryant, Superintendent, Muskegon Heights Public Schools, 2603 Leahy Street, Muskegon Heights, MI 49444, telephone number (231) 830-3221.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

December 2, 2008

Board of Education  
School District of the City of Muskegon Heights  
Muskegon Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Muskegon Heights (the School District), as of and for the year ended June 30, 2008, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of the City of Muskegon Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Muskegon Heights, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated December 2, 2008, on our consideration of the School District of the City of Muskegon Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

BRICKLEY DELONG

Board of Education  
December 2, 2008  
Page 2

The management's discussion and analysis and budgetary comparison information on pages i - x and page 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The statistical data included on pages 29 - 37 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

*Brickley DeLong, PLC*

School District of the City of Muskegon Heights  
**STATEMENT OF NET ASSETS**  
June 30, 2008

	ASSETS	Governmental activities
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		\$ 1,697,360
Receivables		509,574
Due from other governmental units		4,517,082
Inventories		<u>14,189</u>
Total current assets		6,738,205
<b>NONCURRENT ASSETS</b>		
Capital assets, net		
Nondepreciable		4,200,734
Depreciable		24,060,782
Bond issuance costs, net		453,662
Note and interest receivable		<u>590,842</u>
Total noncurrent assets		<u>29,306,020</u>
Total assets		36,044,225
	<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>		
State aid loan		2,700,000
Accounts payable and accrued liabilities		3,275,496
Due to other governmental units		723,935
Deferred revenue		265,149
Bonds and other obligations, due within one year		<u>1,352,000</u>
Total current liabilities		8,316,580
<b>NONCURRENT LIABILITIES</b>		
Bonds and other obligations, less amounts due within one year		27,091,902
Accrued interest		<u>99,100</u>
Total noncurrent liabilities		<u>27,191,002</u>
Total liabilities		<u>35,507,582</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt		3,538,982
Unrestricted		<u>(3,002,339)</u>
Total net assets		<u><u>\$ 536,643</u></u>

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2008

<i><b>Functions/Programs</b></i>	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
Governmental activities				Governmental activities
Instruction	\$ 12,810,577	\$ 675	\$ 3,534,721	\$ (9,275,181)
Support services	9,915,149	505,080	3,370,220	(6,039,849)
Community services	1,206,024	-	1,140,581	(65,443)
Food services	1,198,123	115,455	1,068,324	(14,344)
Athletics	324,532	56,012	-	(268,520)
Interest on long-term debt	1,161,794	-	13,979	(1,147,815)
Unallocated amortization	100,711	-	-	(100,711)
Total governmental activities	<u>\$ 26,716,910</u>	<u>\$ 677,222</u>	<u>\$ 9,127,825</u>	(16,911,863)
General revenues				
Property taxes levied for				
General purposes				1,611,625
Debt service				1,653,887
Grants and contributions not restricted to specific programs				12,839,700
Investment earnings				108,891
Miscellaneous				21,207
Gain on sale of capital assets				51,342
Total general revenues				<u>16,286,652</u>
Change in net assets				(625,211)
Net assets at July 1, 2007				<u>1,161,854</u>
Net assets at June 30, 2008				<u>\$ 536,643</u>

The accompanying notes are an integral part of this statement.



School District of the City of Muskegon Heights  
**BALANCE SHEET**  
Governmental Funds  
June 30, 2008

	General Fund	1999 Building Capital Projects Fund	2007 Energy Conservation Capital Projects Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 122,590	\$ 688,951	\$ 764,566	\$ 121,253	\$ 1,697,360
Receivables	501,969	-	-	7,605	509,574
Due from other governmental units	4,356,893	-	-	160,189	4,517,082
Due from other funds	627,579	21,439	-	-	649,018
Inventories	3,866	-	-	10,323	14,189
Total assets	<u>\$ 5,612,897</u>	<u>\$ 710,390</u>	<u>\$ 764,566</u>	<u>\$ 299,370</u>	<u>\$ 7,387,223</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>					
Liabilities					
State aid loan	\$ 2,700,000	\$ -	\$ -	\$ -	\$ 2,700,000
Accounts payable	229,224	272,612	475,000	29,826	1,006,662
Accrued liabilities	2,105,143	-	-	2,572	2,107,715
Due to other governmental units	723,935	-	-	-	723,935
Due to other funds	21,439	-	-	627,579	649,018
Deferred revenue	336,020	-	-	-	336,020
Total liabilities	<u>6,115,761</u>	<u>272,612</u>	<u>475,000</u>	<u>659,977</u>	<u>7,523,350</u>
Fund balances (deficit)					
Reserved					
Inventories	3,866	-	-	10,323	14,189
Capital projects	-	437,778	289,566	-	727,344
Unreserved					
Undesignated					
General Fund	(506,730)	-	-	-	(506,730)
School service	-	-	-	(370,930)	(370,930)
Total fund balances (deficit)	<u>(502,864)</u>	<u>437,778</u>	<u>289,566</u>	<u>(360,607)</u>	<u>(136,127)</u>
Total liabilities and fund balances	<u>\$ 5,612,897</u>	<u>\$ 710,390</u>	<u>\$ 764,566</u>	<u>\$ 299,370</u>	<u>\$ 7,387,223</u>

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2008

Total fund balance—governmental funds	\$	(136,127)
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Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not current financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 42,284,196	
Accumulated depreciation	<u>(14,022,680)</u>	28,261,516

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	823,880	
Accumulated amortization	<u>(370,218)</u>	453,662

Other long-term note and interest receivable in governmental activities is not reported in the  
governmental funds.

590,842

Accrued interest in governmental activities is not reported in the governmental funds.

(260,219)

Deferred revenue reported on the balance sheet that does not provide current financial  
resources is not reported as revenue in the governmental funds.

70,871

Long-term liabilities in governmental activities are not due and payable in the current period  
and are not reported in the governmental funds.

Bonds and notes payable	(28,118,527)	
Compensated absences	(148,375)	
Early retirement incentives	<u>(177,000)</u>	<u>(28,443,902)</u>

Net assets of governmental activities in the Statement of Net Assets

\$ 536,643

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended June 30, 2008

	General Fund	1999 Building Capital Projects Fund	2007 Energy Conservation Capital Projects Fund	Other governmental funds	Total governmental funds
<b>REVENUES</b>					
Local sources					
Property taxes	\$ 1,611,625	\$ -	\$ -	\$ 1,653,887	\$ 3,265,512
Investment earnings	42,485	29,387	23,141	13,878	108,891
Fees and charges	496,578	-	-	171,467	668,045
Other	104,323	-	-	-	104,323
Total local sources	2,255,011	29,387	23,141	1,839,232	4,146,771
State sources	15,234,494	-	-	88,229	15,322,723
Federal sources	5,224,193	-	-	980,095	6,204,288
Total revenues	22,713,698	29,387	23,141	2,907,556	25,673,782
<b>EXPENDITURES</b>					
Instruction	11,857,735	-	-	-	11,857,735
Support services	9,908,901	-	-	-	9,908,901
Community services	1,178,288	-	-	-	1,178,288
Food services	-	-	-	1,162,878	1,162,878
Athletics	-	-	-	281,910	281,910
Debt service					
Principal	-	-	-	585,000	585,000
Interest and other charges	-	-	-	1,348,409	1,348,409
Capital projects	-	538,886	2,882,575	-	3,421,461
Total expenditures	22,944,924	538,886	2,882,575	3,378,197	29,744,582
Excess (deficiency) of revenues over (under) expenditures	(231,226)	(509,499)	(2,859,434)	(470,641)	(4,070,800)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other governmental units and other transactions	699,741	-	-	-	699,741
Bond proceeds	-	-	3,149,000	-	3,149,000
Transfers in	-	-	-	200,000	200,000
Transfers out	(200,000)	-	-	-	(200,000)
Total other financing sources (uses)	499,741	-	3,149,000	200,000	3,848,741
Net change in fund balances	268,515	(509,499)	289,566	(270,641)	(222,059)
Fund balances (deficit) at July 1, 2007	(771,379)	947,277	-	(89,966)	85,932
Fund balances (deficits) at June 30, 2008	\$ (502,864)	\$ 437,778	\$ 289,566	\$ (360,607)	\$ (136,127)

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2008

Net change in fund balances—total governmental funds	\$	(222,059)
--	----	-----------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (1,249,070)	
Bond issuance costs	157,450	
Capital outlay	<u>3,345,353</u>	2,253,733

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.	(56,956)
--	----------

Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.	13,979
--	--------

Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.	(347,145)
--	-----------

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets.	(3,256,376)
--	-------------

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,010,421
--	-----------

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	(8,616)
---	---------

Compensated absences and early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>(12,192)</u>
--	-----------------

Change in net assets of governmental activities	\$	<u>(625,211)</u>
---	----	------------------

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2008

	Agency funds
	<u>          </u>
ASSETS	
Cash and cash equivalents	\$     39,978
	<u>                  </u>
LIABILITIES	
Deposits held for others	\$     39,978
	<u>                  </u>

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School District of the City of Muskegon Heights (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

***District-wide and Fund Financial Statements***

**District-wide Financial Statements** – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***District-wide and Fund Financial Statements—Continued***

**Fund financial statements** – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *1999 Building Capital Projects Fund* accounts for the use of the proceeds from the 1999 School Building and Site Bonds. The Bonds were approved for issuance on March 9, 1999 and may be used for school building and site purposes.
- The *2007 Energy Conservation Capital Projects Fund* accounts for the use of the proceeds from the 2007 Energy Conservation Improvement Bonds. The Bonds were approved for issuance on August 8, 2007 and may be used for providing energy conservation improvements to school facilities.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**Fiduciary funds** – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Measurement Focus, Basis of Accounting and Basis of Presentation***

**Accrual Method**

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.



School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies***

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

**Property Taxes**

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.0
Debt service funds - Homestead and non-homestead	12.5

**Inventories**

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies—Continued***

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Land improvements	10-15 years
Buildings and improvements	10-40 years
Buses and other vehicles	10 years
Furniture and other equipment	5-10 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

**Compensated Absences**

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

**Early Retirement Incentives**

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies—Continued***

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Assets In District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund debt is not considered to be capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity In Fund Financial Statements**

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School District does not consider these amendments to be significant.

**Excess of Expenditures Over Appropriations**

For the year ended June 30, 2008, expenditures exceeded appropriations in operations and maintenance services by \$163,981. The excess expenditures were funded by lower expenditures in other functions.

**Fund Deficits**

As of June 30, 2008, the General Fund had a deficit of \$502,864, the Athletic Fund had a deficit of \$95,257 and the Food Service Fund had a deficit of \$265,350. The deficits will be eliminated through future operations, which may include reduction of operating expenditures and interfund transfers.

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**School Bond Construction Compliance**

The 1999 Building Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 1999 Building Capital Projects Fund from the inception of the fund through June 30, 2008.

	<u>1999 Building Capital Projects Fund</u>
Revenue and bond proceeds	\$ 29,620,834
Expenditures	29,183,056

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2008, the School District had the following investments:

<b>Investment Type</b>	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Standard &amp; Poor's rating</u>	<u>Percent</u>
External investment pool	\$ <u>1,994,951</u>	27	unrated	<u>100%</u>

The School District voluntarily invests certain excess funds in external investment pools (Pools). The Pools are external investment pools of "qualified" investments for Michigan school districts. The Pools are not regulated nor are they registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

**Interest rate risk.** The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$664,566 of the School District's bank balance of \$828,088 was exposed to custodial credit risk because it was uninsured and uncollateralized.

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**Custodial credit risk - investments.** The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The School District is not authorized to invest in investments which have this type of risk.

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<b>Capital assets, not being depreciated:</b>				
Land	\$ 1,475,734	\$ -	\$ -	\$ 1,475,734
Construction in progress	172,241	2,725,000	172,241	2,725,000
Total capital assets, not being depreciated	1,647,975	2,725,000	172,241	4,200,734
<b>Capital assets, being depreciated:</b>				
Land improvements	595,575	13,500	-	609,075
Buildings and improvements	33,789,965	568,607	-	34,358,572
Equipment	2,578,071	210,487	261,251	2,527,307
Vehicles	588,508	-	-	588,508
Total capital assets, being depreciated	37,552,119	792,594	261,251	38,083,462
<b>Less accumulated depreciation:</b>				
Land improvements	419,319	17,499	-	436,818
Buildings and improvements	10,919,089	793,414	-	11,712,503
Equipment	1,230,245	313,955	204,295	1,339,905
Vehicles	509,963	23,491	-	533,454
Total accumulated depreciation	13,078,616	1,148,359	204,295	14,022,680
Total capital assets, being depreciated, net	24,473,503	(355,765)	56,956	24,060,782
Capital assets, net	\$ 26,121,478	\$ 2,369,235	\$ 229,197	\$ 28,261,516

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE D—CAPITAL ASSETS—Continued**

**Depreciation**

Depreciation expense has been charged to functions as follows:

Instruction	\$ 919,707
Support service	123,049
Food service	35,245
Athletics	42,622
Community service	27,736
	<u>\$ 1,148,359</u>

**NOTE E—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bond issuance costs	\$ 666,430	\$ 157,450	\$ -	\$ 823,880
Less accumulated amortization	<u>269,507</u>	<u>100,711</u>	<u>-</u>	<u>370,218</u>
Bond issuance costs, net	<u>\$ 396,923</u>	<u>\$ 56,739</u>	<u>\$ -</u>	<u>\$ 453,662</u>

**Amortization**

Amortization expense has been charged as unallocated amortization.

**NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2008 is as follows:

**Due to/from other funds:**

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 627,579
1999 Building Capital Projects Fund	General Fund	<u>21,439</u>
		<u>\$ 649,018</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers**

The General Fund transferred \$200,000 to the Athletics Fund to finance operations.

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE G—SHORT-TERM DEBT**

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2008 follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>
State aid anticipation note				
2006/2007 4.50% due August 2007	\$ 2,700,000	\$ -	\$ 2,700,000	\$ -
2007/2008 4.45% due August 2008	<u>-</u>	<u>2,700,000</u>	<u>-</u>	<u>2,700,000</u>
	<u>\$ 2,700,000</u>	<u>\$ 2,700,000</u>	<u>\$ 2,700,000</u>	<u>\$ 2,700,000</u>

**NOTE H—DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Due from other governmental units	\$ 70,871	\$ -
State aid grant funds received prior to spending funds	<u>-</u>	<u>265,149</u>
Total deferred revenue for governmental funds	<u>\$ 70,871</u>	<u>\$ 265,149</u>



School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE I—LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include School Bond Loan Fund, equipment loan payable and Education Interconnection and Consortium Financing Agreement.

**Summary of Long-term Obligations**

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
<b>Governmental activities:</b>					
Bonds	\$ 23,287,332	\$ 3,149,000	\$ 564,875	\$ 25,871,457	\$ 716,000
Other obligations	2,585,240	107,376	445,546	2,247,070	543,000
Early retirement incentives	144,000	75,000	42,000	177,000	53,000
Compensated absences	169,183	34,284	55,092	148,375	40,000
	<u>\$ 26,185,755</u>	<u>\$ 3,365,660</u>	<u>\$ 1,107,513</u>	<u>\$ 28,443,902</u>	<u>\$ 1,352,000</u>

In the previous schedule, the addition for other obligations of \$107,376 is accrued interest on the School Bond Loan Fund.

General obligation bonds consist of the following:

1999 Building General Obligation Bond

partially refunded February 2006; final payment due May 2009; plus interest at 5.5% payable semi-annually

\$ 620,000

2006 General Obligation Refunding Bond payable in annual installments ranging from \$50,000 to \$1,580,000 due May 2009 to 2029; plus interest ranging from 3.25% to 5% payable semi-annually

22,030,000

Less issuance discount

(111,842)

Less deferred amount on refunding

(307,443)

0% 2007 Energy Conservation Improvement Bonds

requiring annual set aside principal installments of \$209,933 unless a lesser amount will be sufficient to pay the bonds as they mature through December 2022.

3,149,000

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE I—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

General obligation bonds—Continued

Durant obligations payable in annual installments ranging from \$58,479 to \$392,934 including interest at 4.76% due May 2009 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.

\$ 491,742

Total bonded debt 25,871,457

Other obligations

School Bond Loan Fund payable as soon as annual tax collections exceed annual debt service payment requirements or May 2035, whichever is sooner; interest payable of \$275,499 is included at interest rates ranging from 2.625% to 4.875%

2,214,987

Education Interconnection and Consortium Financing Agreement payable in annual installments of \$4,391 due March 2009 to 2013

21,957

Equipment loan payable in annual installments of \$10,126 through August 2008; plus interest at 6.04%

10,126

Total other obligations 2,247,070

Early retirement incentives 177,000

Compensated absences 148,375

\$ 28,443,902

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

In prior years, the School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2008, \$21.1 million of bonds outstanding are considered defeased.

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE I—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

The annual requirements of principal and interest to amortize bonded debt, equipment loan payable, Education Interconnection and Consortium Financing Agreement, School Bond Loan Fund, and early retirement incentives outstanding as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 1,312,000	\$ 979,460	\$ 2,291,460
2010	1,150,814	1,038,500	2,189,314
2011	1,019,257	913,800	1,933,057
2012	1,135,675	884,778	2,020,453
2013	1,259,214	852,803	2,112,017
2014-2018	5,423,634	3,699,525	9,123,159
2019-2023	8,844,000	2,622,343	11,466,343
2024-2028	6,990,000	1,304,589	8,294,589
2029-2030	1,580,218	71,100	1,651,318
	<u>\$ 28,714,812</u>	<u>\$ 12,366,898</u>	<u>\$ 41,081,710</u>

**NOTE J—EMPLOYEE BENEFITS**

***Employee Retirement System – Defined Benefit Plan***

**Plan description** – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing Michigan 48909  
1-800-381-5111

**Funding policy** – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE J—EMPLOYEE BENEFITS—Continued**

***Employee Retirement System – Defined Benefit Plan—Continued***

**Funding Policy—Continued**

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 16.72 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were approximately \$1,894,000, \$2,004,000, and \$2,159,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits** – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

***Post-Retirement Health Care Benefits***

Pursuant to employment contracts, certain employees electing early retirement are provided post-retirement health benefits which vary depending on the plan chosen and their age at retirement. Health care benefits terminate the month the person attains eligibility for full social security benefits, or dies, whichever occurs first; however, no more than ten (10) years of payments will be made. The School District records expenditures for these benefits when premiums are due. Future benefits will be funded out of future revenues. The cost of these benefits for the year ended June 30, 2008 was approximately \$490,000 provided to 37 participants.

**NOTE K—COMMITMENTS, CONTINGENCIES AND OTHER MATTERS**

**Commitments**

- **Construction Contract** – As of June 30, 2008, the School District has awarded a construction contract totaling \$3,000,000 of which \$2,725,000 of expenditures had been incurred. The contract is the obligation of the 2007 Energy Conservation Capital Projects Fund and the School District.
- **Operating Leases** – The School District leases office equipment under a five-year lease agreement expiring August 2012. The lease requires monthly rental payments of \$9,900. Expenditures for the year ended June 30, 2008 were approximately \$99,000.

School District of the City of Muskegon Heights  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE K—COMMITMENTS, CONTINGENCIES AND OTHER MATTERS—Continued**

**Contingencies**

- **Litigation** – The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.
- **Grant Programs** – The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The School District has approximately \$10,000 in questioned costs resulting from the Single Audit of its federal programs for the year ending June 30, 2008 and approximately \$57,000 of unresolved questioned costs from the June 30, 2007 Single Audit. Based upon prior experience and audit results, the School District believes it is not likely it will incur significant losses on possible grant disallowances.

**Other Matters**

- **Related Party Transaction** – The School District advanced \$33,250 at June 30, 2008 to an employee. The advance is being repaid in lieu of future salary and benefit increases, but no later than July 2010.

**NOTE L—OTHER INFORMATION**

**Economic Dependence** – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 67 percent of General Fund revenues.

**Risk Management** – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

**NOTE M—SUBSEQUENT EVENT**

On August 20, 2008, the School District received the proceeds of a \$3,200,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity on August 21, 2009 and bears interest at the rate of 3.5 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.

## **REQUIRED SUPPLEMENTARY INFORMATION**

School District of the City of Muskegon Heights  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Local sources	\$ 2,331,010	\$ 2,094,050	\$ 2,255,011	\$ 160,961
State sources	16,108,640	15,510,130	15,234,494	(275,636)
Federal sources	4,417,340	5,725,390	5,224,193	(501,197)
Incoming transfers and other transactions	695,240	602,260	699,741	97,481
Total revenues	23,552,230	23,931,830	23,413,439	(518,391)
<b>EXPENDITURES</b>				
Instruction				
Basic programs	8,850,440	8,422,090	7,802,691	619,399
Added needs	3,856,950	4,174,070	3,956,221	217,849
Adult and continuing education	80,500	93,130	98,823	(5,693)
Support services				
Pupil	1,722,220	1,825,800	1,859,687	(33,887)
Instructional staff	1,878,880	2,131,310	2,007,492	123,818
General administration	465,740	488,640	417,910	70,730
School administration	1,024,800	1,008,460	1,053,914	(45,454)
Business	437,610	443,060	463,874	(20,814)
Operations and maintenance	2,449,310	2,358,810	2,522,791	(163,981)
Pupil transportation services	923,800	938,380	991,723	(53,343)
Central	619,840	592,010	591,510	500
Community services	992,140	1,154,770	1,178,288	(23,518)
Outgoing transfers and other transactions	250,000	200,000	200,000	-
Total expenditures	23,552,230	23,830,530	23,144,924	685,606
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ 101,300	268,515	\$ 167,215
Fund balance (deficit) at July 1, 2007			(771,379)	
Fund balance (deficit) at June 30, 2008			\$ (502,864)	

**STATISTICAL DATA (Unaudited)**



School District of the City of Muskegon Heights  
**PROPERTY VALUATIONS—HISTORICAL VALUATIONS**  
 Year ended June 30, 2008  
 (Unaudited)

<u>Year</u>	<u>Homestead</u>	<u>Non-homestead<sup>1</sup></u>	<u>Taxable value</u>	<u>Increase (decrease) over prior year</u>
2007	\$ 41,464,849	\$ 88,983,515	\$ 130,448,364	3.8 %
2006	40,158,182	85,464,750	125,622,932	4.2
2005	38,303,925	82,251,702	120,555,627	3.2
2004	37,387,015	79,448,678	116,835,693	2.2
2003	37,044,912	77,322,645	114,367,557	1.0

*Source: Muskegon County Equalization Department*

<sup>1</sup>Includes Industrial Facilities Tax roles

School District of the City of Muskegon Heights  
**MAJOR TAXPAYERS**  
Year ended June 30, 2008  
(Unaudited)

Taxable values as of June 30, 2008:

<u>Taxpayer</u>	<u>Product/service</u>	<u>Taxable value</u>
Consumers Energy	Utility	\$ 6,330,030
Lift Tech International	Hoists, etc	3,694,569
Quality Tool & Stamping	Metal stamping	3,616,237
Anderson Global	Industrial patterns	3,376,778
MAHLE	Engine components	2,604,709
Tridonn Construction	Construction	2,323,470
Michigan Consolidated Gas Co.	Utility	1,372,000
Paragon Pattern	Pattern making	1,276,264
American Grease Stick	Break line manufacturing	1,258,500
Versatile Fabrication	Sheet metal fabrication	<u>967,400</u>
		<u>\$ 26,819,957</u>

The taxable values of the above taxpayers represent 20.6 percent of the School District's 2007 taxable value of \$130,448,364.

*Source: Muskegon County Equalization Department*

School District of the City of Muskegon Heights  
**SCHOOL DISTRICT TAX RATES**  
 Year ended June 30, 2008  
 (Unaudited)

	Year ended June 30				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Voted	18.0000	18.0000	18.0000	18.0000	18.0000
Debt	<u>12.5000</u>	<u>12.5000</u>	<u>12.5000</u>	<u>12.5000</u>	<u>12.5000</u>
TOTAL HOMESTEAD	12.5000	12.5000	12.5000	12.5000	12.5000
TOTAL NON-HOMESTEAD	30.5000	30.5000	30.5000	30.5000	30.5000

The School District's 18.0 voted mills will expire with the December 1, 2013 levy.

School District of the City of Muskegon Heights  
**STATE AID SUMMARY—FUNDS FROM STATE SOURCES**  
Year ended June 30, 2008  
(Unaudited)

Year ended June 30	Amount
2008	\$ 15,234,494
2007	16,374,340
2006	16,733,578
2005	17,078,742
2004	17,564,166

School District of the City of Muskegon Heights  
**OPERATING TAX LEVIES AND COLLECTIONS**  
 Year ended June 30, 2008  
 (Unaudited)

Year ended June 30	Operating tax levy	Collections to March 1 each year	Collections plus funding to June 30 each year
2008	\$ 1,551,807	\$ 1,305,146      84.10 %	\$ 1,546,775      99.68 %
2007	1,466,196	1,239,368      84.53	1,463,076      99.79
2006	1,422,888	1,231,067      86.52	1,401,664      98.51
2005	1,300,076	1,011,318      77.79	1,260,106      96.93
2004	1,236,969	972,009      78.58	1,199,450      96.97

School District of the City of Muskegon Heights

**LABOR FORCE**

Year ended June 30, 2008

(Unaudited)

A breakdown of the number of employees of the School District of the City of Muskegon Heights and their affiliation with organized groups is as follows:

<u>Employees</u>	<u>Number</u>	<u>Bargaining unit</u>	<u>Contract expiration</u>
Administrators	15	Teamsters	06/30/03
Teachers	138	MEA-NEA	08/31/06
Secretarial/Clerical	17	MEA-NEA	06/30/09
Instructional Assistants	36	AFL-CIO	10/15/07
Maintenance/Custodial	13	MEA-NEA	08/16/08
Transportation	8	MEA-NEA	08/16/08
Head Start	11	SEIU	06/30/08
Nonunion	<u>21</u>	N/A	N/A
TOTAL STAFF	<u><u>259</u></u>		

School District of the City of Muskegon Heights

**PENSION FUND**

Year ended June 30, 2008

(Unaudited)

For the period from October 1, 2007 through September 30, 2008, the School District will pay an amount equal to 16.72 percent of its employees' wages to the Michigan Public School Employees Retirement System (MPERS) which is administered by the State of Michigan. The following were the applicable contribution rates required by law for the periods:

October 1, 2006—September 30, 2007	17.74 %
October 1, 2005—September 30, 2006	16.34
October 1, 2004—September 30, 2005	14.87
October 1, 2003—September 30, 2004	12.99
October 1, 2002—September 30, 2003	12.99

These contributions are required by law. The School District's contributions for the past five years are shown below. The School District does not have an unfunded accrued liability under MPERS.

<u>Year ending June 30</u>	<u>Paid to pension fund</u>
2008	\$ 1,894,000
2007	2,004,000
2006	2,159,000
2005	1,882,000
2004	1,729,000

Effective January 1, 1987, members of MPERS may irrevocably elect to contribute a percentage of their gross wages on a tax deferred basis to a "member investment plan" (MIP) which qualifies them for additional benefits. The current contribution rate of 3.9 percent became effective January 1, 1990, representing a change from the previous contribution rate of 4 percent. This option to review and adjust the contribution rate is available to MPERS members, if necessary, every three years. All employees hired after January 1, 1990 will contribute to the plan at a graduated rate of their gross wages. If a member leaves MPERS service before a retirement benefit has vested, the member's accumulated contributions to MIP, plus interest, if any, are refundable.

School District of the City of Muskegon Heights  
**DEBT STATEMENT—DIRECT DEBT**  
Year ended June 30, 2008  
(Unaudited)

<u>Dated</u>	<u>Purpose</u>	<u>Type</u>	<u>Interest spread</u>	<u>Maturities</u>	<u>Amount outstanding</u>
5/6/99	Building and Site	UTQ	5.50%	5/1/2009	\$ 620,000
2/15/06	Refunding	UTQ	3.25-5%	05/01/09-29	22,030,000
12/19/07	Energy Conservation Improvements	LTQ	0%	12/19/2022	<u>3,149,000</u>
					<u>25,799,000</u>



School District of the City of Muskegon Heights  
**SCHOOL BOND LOAN FUND (SBLF) PROGRAM**  
Year ended June 30, 2008  
(Unaudited)

As of June 30, 2008, the School District has a School Bond Loan Fund principal balance of \$2,135,609 and interest obligations of \$79,377.

The Bonds are fully qualified as of the date of delivery pursuant to Act 108 of the Public Acts of Michigan, 1961, as amended, enacted pursuant to Article IX, Section 16, of the Michigan Constitution of 1963. Under the terms of said constitutional and statutory provisions, if for any reason the School District will be or is unable to pay the principal and interest on the Bonds when due, the School District shall borrow, and the State of Michigan (State) shall lend to it from the School Bond Loan Fund established by the State, an amount sufficient to enable the School District to make payment. Article IX, Section 16 of the Michigan Constitution, as implemented by Act 112 of the Public Acts of Michigan, 1961, as amended, authorizes the State, without approval of its electors, to borrow from time to time such amounts as shall be required, pledge the State's full faith and credit and issue its notes or bonds therefore, for the purpose of making loans to school districts as provided under such section. Loans to school districts for such purposes are made from the proceeds of such State borrowing.

Complete financial statements of all of the State's funds as included in the State's Comprehensive Annual Financial Report (CAFR) prepared by the State's Department of Management and Budget are available upon request from the Department of Management and Budget, Office of Financial Management, P.O. Box 30026, Lansing, Michigan 48909, telephone (517) 373-1011. The State has agreed to file its CAFR with the Nationally Recognized Securities Information Repositories and the State Information Depository (as described in Rule 15c2-12(b)(5) of the Securities and Exchange Commission) annually, so long as any bonds qualified for participation in the School Bond Loan Fund remain outstanding.

School District of the  
City of Muskegon Heights

**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and  
Independent Auditors' Reports

June 30, 2008

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# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 2, 2008

Board of Education  
School District of the City of Muskegon Heights  
Muskegon Heights, Michigan

We have audited the financial statements of the School District of the City of Muskegon Heights as of and for the year ended June 30, 2008 and have issued our report thereon dated December 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the School District of the City of Muskegon Heights' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 – 5, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Board of Education  
December 2, 2008  
Page 2

***Internal Control Over Financial Reporting—Continued***

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

***Compliance***

As part of obtaining reasonable assurance about whether the School District of the City of Muskegon Heights' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The School District of the City of Muskegon Heights' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the School District of the City of Muskegon Heights' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLC*

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 2, 2008

Board of Education  
School District of the City of Muskegon Heights  
Muskegon Heights, Michigan

### ***Compliance***

We have audited the compliance of the School District of the City of Muskegon Heights with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The School District of the City of Muskegon Heights' major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District of the City of Muskegon Heights' management. Our responsibility is to express an opinion on the School District of the City of Muskegon Heights' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of the City of Muskegon Heights' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District of the City of Muskegon Heights' compliance with those requirements.

As described in Findings 6 – 8 in Part C of the accompanying Schedule of Findings and Responses, the School District of the City of Muskegon Heights did not comply with requirements regarding Reporting, Eligibility and Special Tests and Provisions – Verification of Free and Reduced Price Applications compliance requirements that are applicable to its U.S. Department of Agriculture Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the School District of the City of Muskegon Heights to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District of the City of Muskegon Heights complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Board of Education  
December 2, 2008  
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***Internal Control Over Compliance***

The management of the School District of the City of Muskegon Heights is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of Muskegon Heights' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in Part C in the accompanying Schedule of Findings and Responses as Finding 5 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in Part C in the accompanying Schedule of Findings and Responses to be a material weakness.

The School District of the City of Muskegon Heights' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the School District of the City of Muskegon Heights' responses and, accordingly, we express no opinion on them.

Board of Education  
December 2, 2008  
Page 3

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of the School District of the City of Muskegon Heights as of and for the year ended June 30, 2008 and have issued our report thereon dated December 2, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLC*



School District of the City of Muskegon Heights  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2007	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008	Notes
					Prior year (s)	Current year	Total		
U.S. Department of Education									
Passed through Michigan Department of Education									
Title I	84.010								
061530 0607		\$ 276,540	\$ 65,715	\$ 65,715	\$ 271,633	\$ -	\$ 271,633	\$ -	5
071530 0607		2,141,030	392,397	578,796	1,632,163	150,901	1,783,064	(35,498)	
071550 0607		75,000	75,000	75,000	75,000	-	75,000	-	
081530 0708		2,309,870	-	1,483,199	-	2,051,827	2,051,827	568,628	
081550 0708		75,000	-	41,898	-	55,933	55,933	14,035	
		4,877,440	533,112	2,244,608	1,978,796	2,258,661	4,237,457	547,165	
Service Provider Self Review	84.010								
080440 0708		4,500	-	-	-	4,500	4,500	4,500	
Title V	84.298								
060250 0607		6,096	6,096	6,096	6,096	-	6,096	-	
070250 0607		13,752	3,812	3,812	13,752	-	13,752	-	
080250 0708		13,505	-	-	-	13,505	13,505	13,505	
		33,353	9,908	9,908	19,848	13,505	33,353	13,505	
Technology Literacy Challenge	84.318								
064290 0607		13,830	8,750	8,750	13,483	-	13,483	-	
074290 0607		22,995	(5,742)	4,083	7,420	9,825	17,245	-	
		36,825	3,008	12,833	20,903	9,825	30,728	-	
Reading First	84.357								
062930 0607		669,020	224,921	224,921	603,704	-	603,704	-	
082930 0708		680,104	-	498,706	-	663,280	663,280	164,574	
		1,349,124	224,921	723,627	603,704	663,280	1,266,984	164,574	
Title II A	84.367								
060520 0607		29,480	29,480	29,480	29,480	-	29,480	-	
070520 0607		339,097	50,503	66,641	282,669	16,138	298,807	-	
080520 0708		332,369	-	177,573	-	248,149	248,149	70,576	
		700,946	79,983	273,694	312,149	264,287	576,436	70,576	
Total passed through Michigan Department of Education		7,002,188	850,932	3,264,670	2,935,400	3,214,058	6,149,458	800,320	

School District of the City of Muskegon Heights  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2007	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008	Notes
					Prior year (s)	Current year	Total		
<b><i>U.S. Department of Education—Continued</i></b>									
Passed through Muskegon Area Intermediate School District									
Adult Basic Education 081130 810588	84.002	\$ 26,293	\$ -	\$ 26,293	\$ -	\$ 26,293	\$ 26,293	\$ -	
Special Education Cluster									
IDEA 101-476 Flowthrough	84.027								
060450 0506		551,579	25,286	25,286	551,579	-	551,579	-	
070450 0607		531,605	141,380	271,665	401,320	130,285	531,605	-	
080450 0708		465,928	-	356,837	-	463,452	463,452	106,615	
		1,549,112	166,666	653,788	952,899	593,737	1,546,636	106,615	
IDEA 101-476 Preschool	84.173								
070460 0607		12,454	3,609	3,644	12,345	109	12,454	74	
080460 0708		10,238	-	10,238	-	10,238	10,238	-	
		22,692	3,609	13,882	12,345	10,347	22,692	74	
Total Special Education Cluster		1,571,804	170,275	667,670	965,244	604,084	1,569,328	106,689	
Drug Free Schools and Communities Act	84.186								
072860 0506		31,082	31,082	31,082	31,082	-	31,082	-	
082860 0708		32,615	-	-	-	32,615	32,615	32,615	
		63,697	31,082	31,082	31,082	32,615	63,697	32,615	
Total passed through Muskegon Area Intermediate School District		1,661,794	201,357	725,045	996,326	662,992	1,659,318	139,304	
Total U.S. Department of Education		8,663,982	1,052,289	3,989,715	3,931,726	3,877,050	7,808,776	939,624	
<b><i>U.S. Department of Agriculture</i></b>									
Passed through Michigan Department of Education									
Entitlement Commodities	10.550	51,998	-	51,998	-	51,998	51,998	-	
071970 Breakfast	10.553	215,020	6,560	28,595	192,985	22,035	215,020	-	3
081970 Breakfast		189,217	-	159,372	-	189,217	189,217	29,845	3
		404,237	6,560	187,967	192,985	211,252	404,237	29,845	
071950 All Lunches	10.555	65,662	1,629	8,053	59,238	6,424	65,662	-	3
081950 All Lunches		53,628	-	45,664	-	53,628	53,628	7,964	3
071960 Free and Reduced		525,303	19,970	72,611	472,662	52,641	525,303	-	3
081960 Free and Reduced		434,165	-	367,015	-	434,165	434,165	67,150	3
081980 Snack Program		2,528	-	2,330	-	2,528	2,528	198	3
		1,081,286	21,599	495,673	531,900	549,386	1,081,286	75,312	

School District of the City of Muskegon Heights  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2007	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008	Notes
					Prior year (s)	Current year	Total		
<b><i>U.S. Department of Agriculture—Continued</i></b>									
Passed through Michigan Department of Education—Continued									
Child Care Food Program									
071920 CCFP Meals	10.558	\$ 18,630	\$ 2,194	\$ 2,194	\$ 18,630	\$ -	\$ 18,630	\$ -	
072010 Child Care Cash in Lieu		794	76	76	794	-	794	-	
081920 CCFP Meals		13,867	-	11,905	-	13,867	13,867	1,962	
082010 Child Care Cash in Lieu		470	-	412	-	470	470	58	
		33,761	2,270	14,587	19,424	14,337	33,761	2,020	
Summer Food Service Program for Children									
070900 Summer Food Meals	10.559	134,133	17,735	134,133	17,735	116,398	134,133	-	3
071900 Summer Food Sponsor Admin		13,817	1,827	13,817	1,827	11,990	13,817	-	3
080900 Summer Food Meals		22,411	-	-	-	22,411	22,411	22,411	3
081900 Summer Food Sponsor Admin		2,323	-	-	-	2,323	2,323	2,323	3
		172,684	19,562	147,950	19,562	153,122	172,684	24,734	
Total passed through Michigan Department of Education and U.S. Department of Agriculture									
		1,743,966	49,991	898,175	763,871	980,095	1,743,966	131,911	
<b><i>U.S. Department of Labor</i></b>									
Passed through County of Muskegon, Michigan									
Wagner Peyser Labor Exchange	17.207								
402222/WP-06		26,280	11,358	11,358	26,280	-	26,280	-	
402222/WP-07		26,538	-	19,904	-	26,538	26,538	6,634	
		52,818	11,358	31,262	26,280	26,538	52,818	6,634	
Workforce Investment Act Cluster									
WIA Adult Program	17.258								
402222/WIA-06		38,249	27,738	27,738	38,249	-	38,249	-	
402222/WP-06		2,026	535	535	2,026	-	2,026	-	
402222/WIA-07		69,695	-	15,674	-	69,695	69,695	54,021	
402222/WP-07		1,715	-	1,286	-	1,715	1,715	429	
		111,685	28,273	45,233	40,275	71,410	111,685	54,450	
WIA Youth Program	17.259								
402222/WIA-06		51,459	24,620	24,620	51,459	-	51,459	-	
402222/WP-06		2,200	581	581	2,200	-	2,200	-	
402222/WIA-07		41,301	-	920	-	41,301	41,301	40,381	
402222/WP-07		2,275	-	1,706	-	2,275	2,275	569	
		97,235	25,201	27,827	53,659	43,576	97,235	40,950	

School District of the City of Muskegon Heights  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2007	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008	Notes
					Prior year (s)	Current year	Total		
<b><i>U.S. Department of Labor—Continued</i></b>									
Passed through County of Muskegon, Michigan									
WIA Dislocated Workers	17.260								
WIA-06		\$ 68,827	\$ 41,303	\$ 41,303	\$ 68,827	\$ -	\$ 68,827	\$ -	
402222/WP-06		3,662	967	967	3,662	-	3,662	-	
WIA-07		10,696	-	5,658	-	10,696	10,696	5,038	
402222/WP-07		4,458	-	3,344	-	4,458	4,458	1,114	
		<u>87,643</u>	<u>42,270</u>	<u>51,272</u>	<u>72,489</u>	<u>15,154</u>	<u>87,643</u>	<u>6,152</u>	
Total WIA Cluster		<u>296,563</u>	<u>95,744</u>	<u>124,332</u>	<u>166,423</u>	<u>130,140</u>	<u>296,563</u>	<u>101,552</u>	
Total passed through County of Muskegon, Michigan and U.S. Department of Labor		349,381	107,102	155,594	192,703	156,678	349,381	108,186	
<b><i>U.S. Department of Health and Human Services</i></b>									
Passed through County of Muskegon, Michigan									
Workfirst	93.558								
402222/WR-06		202,289	-	1,540	200,749	1,540	202,289	-	
402222/WR-07		561,816	164,129	317,235	408,710	153,106	561,816	-	
402222/WR-08		314,335	-	247,700	-	314,335	314,335	66,635	
		<u>1,078,440</u>	<u>164,129</u>	<u>566,475</u>	<u>609,459</u>	<u>468,981</u>	<u>1,078,440</u>	<u>66,635</u>	
Passed through Muskegon Area									
Intermediate School District									
Head Start	93.600								
05CH8258/08		628,261	184,838	443,930	363,581	259,092	622,673	-	
05CH8258/09		608,661	-	311,947	-	364,980	364,980	53,033	
		<u>1,236,922</u>	<u>184,838</u>	<u>755,877</u>	<u>363,581</u>	<u>624,072</u>	<u>987,653</u>	<u>53,033</u>	
Medical Assistance Program Title XIX	93.778								
393		<u>18,270</u>	<u>-</u>	<u>18,147</u>	<u>-</u>	<u>18,270</u>	<u>18,270</u>	<u>123</u>	
Total passed through Muskegon Area									
Intermediate School District		<u>1,255,192</u>	<u>184,838</u>	<u>774,024</u>	<u>363,581</u>	<u>642,342</u>	<u>1,005,923</u>	<u>53,156</u>	
Total U.S. Department of Health and Human Services		<u>2,333,632</u>	<u>348,967</u>	<u>1,340,499</u>	<u>973,040</u>	<u>1,111,323</u>	<u>2,084,363</u>	<u>119,791</u>	
TOTAL FEDERAL ASSISTANCE		\$ 13,090,961	\$ 1,558,349	\$ 6,383,983	\$ 5,861,340	\$ 6,125,146	\$ 11,986,486	\$ 1,299,512	

The accompanying notes are an integral part of this schedule.

School District of the City of Muskegon Heights  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2008

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) and CMS Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.
3. Child Nutrition Cluster
4. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2008

Governmental Funds financial statements

General Fund	\$ 5,224,193	
Other governmental funds (includes Food Service Fund)	<u>980,095</u>	\$ 6,204,288

Less timing difference due to GASB 33 revenue recognition issues	<u>79,142</u>
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Expenditures per single audit report

Schedule of Expenditures of Federal Awards	<u><u>\$ 6,125,146</u></u>
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5. The Michigan Department of Education determined Muskegon Heights Public Schools was not in compliance with budget amendments and approvals noted in Fiscal 2007 Finding No. 1 for the compliance finding related to Allowable Costs/Cost Principles. The School District was required to pay back \$272,004 to the Michigan Department of Education. \$236,506 was paid back June 10, 2008 and \$35,498 was paid back August 21, 2008 as reductions from future draws in MEGS.

School District of the City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND RESPONSES**  
Year ended June 30, 2008

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of the School District of the City of Muskegon Heights.
2. **Five (5)** significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and are reported in Part B of this schedule. These significant deficiencies are not reported as material weaknesses.
3. There were **no** instances of noncompliance material to the financial statements of the School District of the City of Muskegon Heights disclosed during the audit and as reported in Part B of this Schedule.
4. **One (1)** significant deficiency disclosed during the audit of the major federal award programs is reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and is reported in Parts B and C of this Schedule. The significant deficiency is not reported as a material weakness.
5. The auditors' report on compliance for the major federal award programs for the School District of the City of Muskegon Heights expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Agriculture</i> Child Nutrition Cluster	10.553, 10.555 and 10.559
<i>U.S. Department of Education</i> Title I, Part A	84.010
Special Education Cluster	84.027 and 84.173
<i>U.S. Department of Health and Human Services</i> Head Start	93.600

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The School District of the City of Muskegon Heights was not determined to be a low-risk auditee.

School District of the City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2008

**B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**COMPLIANCE**

NONE

**SIGNIFICANT DEFICIENCIES**

**Fiscal 2008 Finding No. 1: Cash Receipts Procedures**

*Criteria:* All cash receipt transactions should be receipted and posted to the general ledger timely.

*Condition:* We noted that prenumbered receipts were not prepared timely and cash receipts were not posted to the general ledger timely.

*Cause:* Business office staff positions had been reduced, creating periods of time in which transactions were not receipted and posted to the general ledger timely.

*Effect:* Interim financial statements are not accurate or complete.

*Recommendation:* The School District should establish internal control procedures over the timely receipting and posting of transactions to the general ledger.

*School District Response:* The vast majority of receipts had been posted to the general ledger within a month after cash was received, however, in a effort to provide proper and accurate account classification, some year-end postings were delayed.

To provide further accuracy, additional internal control procedures have been established and variances between cash receipts, ledger balances, and bank statements will be identified, reviewed, and adjusted in a timely fashion.

School District of the City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2008

**B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**SIGNIFICANT DEFICIENCIES—Continued**

**Fiscal 2008 Finding No. 2: Segregation of Cash Receipts Procedures**

*Criteria:* Duties should be adequately segregated so as to separate incompatible duties.

*Condition:* Certain employees have access to both physical assets and the related accounting records or all phases of cash receipt transactions.

*Cause:* The School District did not have an adequate segregation of duties for the individuals responsible for cash receipts.

*Effect:* Errors in processing transactions and financial reporting and the misappropriation of assets could go undetected.

*Recommendation:* The receipt and opening of mail and endorsement of checks should be segregated from the depositing and recording in the general ledger.

*School District Response:* The School District agrees with this finding. The School District will segregate cash receipt procedures.

**Fiscal 2008 Finding No. 3: Payroll-Related Accrual Account Balance Reconciliations**

*Criteria:* Payroll-related accrual account balances should be reconciled to detailed supporting documentation on a timely basis.

*Condition:* There were several payroll-related account balances that were not reconciled to supporting documentation on a timely basis.

*Cause:* Business office staff positions had been reduced, creating periods of time in which account balances were not reconciled timely.

*Effect:* Failure to reconcile payroll-related account balances timely can adversely affect the accuracy of internally-prepared monthly financial statements, and, correspondingly, adversely affect the analysis and conclusions as to the School District's financial position and results of operations by management and other users of such monthly financial statements. Additionally, this condition significantly increases the amount of year end general ledger account analysis and adjusting journal entries by School District personnel, causing significant delays in closing fiscal year financial records and issuing audited financial statements.

*Recommendation:* The utilization of a monthly closing checklist and written procedures would encourage personnel to review the accuracy of month end balances through analysis of account activity, comparison to supporting documentation and/or reconciliation with detailed schedules.

*School District Response:* The School District will reconcile accounts monthly and consider the above recommendation.



School District of the City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2008

**B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**SIGNIFICANT DEFICIENCIES—Continued**

**Fiscal 2008 Finding No. 4: Athletic Gate Receipts**

*Criteria:* Athletic gate receipts should be collected, reconciled and deposited intact.

*Condition:* We noted that the athletic department was using gate receipt proceeds to make purchases without going through the established school district purchasing procedures. The athletic gate receipts were then being recorded net of proceeds spent by the athletic department.

*Cause:* The Athletic Department thought it was easier to pay some bills with cash instead of having to request checks from the Business Office.

*Effect:* This provides the opportunity for employees to spend School District funds on unauthorized expenditures and not have much of a trail for how the funds were spent.

*Recommendation:* The athletic gate receipts should be collected, reconciled and deposited intact on a regular basis. All athletic expenditures should be paid by check through the School District's established purchasing procedures. All transactions should be recorded in the general ledger at gross.

*School District Response:* The issue was identified by the School District's internal control process and established purchasing procedures were reviewed and discussed with the Athletic Fund management team, providing further clarity. Subsequent testing by School District personnel has shown this issue to be resolved.

School District of the City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2008

**B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**SIGNIFICANT DEFICIENCIES—Continued**

*U.S. Department of Agriculture*

**Fiscal 2008 Finding No. 5: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 071970, 081970, 071950, 071960, 081950, 081960, 081980, 070900, 071900

Award Year Ends: September 30, 2007 and September 30, 2008

*Specific Requirement:* Reporting and Special Tests and Provisions – Verification of Free and Reduced Price Applications

*Criteria:* Per OMB Circular A-133 §\_\_\_\_.105 Definitions, internal control is a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) Effectiveness and efficiency of operations, 2) Reliability of financial reporting, and 3) Compliance with applicable laws and regulations.

*Condition:* The internal control procedures in place requiring review and approval of work performed under the Child Nutrition Cluster reporting and verification functions are not being consistently performed and documented.

*Cause:* Review and approval procedures are not occurring or being documented.

*Questioned Costs:* None

*Context:* Child Nutrition Cluster had compliance findings related to reporting and special tests and provisions – verification of free and reduced price applications.

*Effect:* The lack of a review or approval of the noted compliance areas increases the risk of noncompliance with federal requirements and the risk of a material error/misstatement going undetected in the normal course of operations.

*Recommendation:* Review and approval procedures should be implemented and documented for the Child Nutrition Cluster reporting and verification functions.

*School District Response:* The School District's internal control for this process requires review by two individuals, a representative of the management company and a School District employee. As a method to strengthen the accuracy of the report submission, the management company's director will again review and sign off on the report prior to submission. Also, there has been a change in food service management assigned to the School District.

School District of the City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2008

**C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133**

**COMPLIANCE**

*U.S. Department of Agriculture*

**Fiscal 2008 Finding No. 6: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 071970, 081970, 071950, 071960, 081950, 081960, 081980, 070900, 071900

Award Year End: September 30, 2007 and September 30, 2008

*Specific Requirement:* Reporting

*Criteria:* All claims for reimbursement must be supported by accurate meal count records indicating the number of meals served by category and type per 7 CFR Section 210.7(c).

*Condition:* We noted that not all claims were supported by accurate meal counts by category and type taken at point of service.

*Cause:* Monthly summary reports are created using source documents from the point of service (POS) system and manual adjustment sheets. These summary reports are used to report the number of meals served. There are two buildings that do not use the POS system, but instead meal counts are taken manually. One of these buildings did not utilize an acceptable counting system for the meals served. There were errors in transferring data from daily POS source documents to monthly summary reports, and one daily POS source document could not be located.

*Questioned Costs:* \$9,141

*Context:* We selected three monthly claims to test, but due to the high error rate we stopped after testing one monthly claim (April 2008).

*Effect:* The claims for reimbursement filed with the Michigan Department of Education had both over and understatements of meals served by category and type.

*Recommendation:* The School District should utilize the POS system for all buildings. Monthly summary reports and monthly claims for reimbursement should be reviewed for accuracy.

*School District Response:* The School District and management company has purchased new POS computer systems and software has been updated for all buildings. Additional training will be provided for employees, ensuring accurate meal count records. Also, there has been a change in food service management assigned to the School District.

School District of the City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2008

**C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133**

**COMPLIANCE—Continued**

*U.S. Department of Agriculture*

**Fiscal 2008 Finding No. 7: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 081970, 081950, 081960, 081980, 071900

Award Year End: September 30, 2008

*Specific Requirement:* Eligibility

*Criteria:* School Food Authorities (SFA) must determine eligibility for free and reduced price benefits based on a completed application or other categorical qualifiers per the OMB Circular A-133 Compliance Supplement and USDA Eligibility Guidance for School Meals Manual.

*Condition:* We noted one application that listed only two household members, while the Meal Magic software used to make the eligibility determination listed three household members. Based upon the weekly income and household members reported on the application, the student should have been denied free or reduced pricing. The student received reduced price meals.

*Cause:* The Meal Magic software rolled forward the household members from the prior year and the School District staff did not identify the additional household member for the current year.

*Questioned Costs:* \$170

*Context:* There was one error in a sample of 40 students selected to test eligibility, of which there were 21 applications and 19 direct certifications.

*Effect:* There was one student receiving reduced price benefits that should not have been receiving those benefits, and the School District was reimbursed too much money by the Michigan Department of Education.

*Recommendation:* School District personnel should verify that the data entered into the Meal Magic software and the resulting eligibility determination agrees to the approved paper application.

*School District Response:* The School District agrees with this finding. Management changes within the food service operation will prevent future occurrences.

School District of the City of Muskegon Heights  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2008

**C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133**

**COMPLIANCE—Continued**

*U.S. Department of Agriculture*

**Fiscal 2008 Finding No. 8: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 081970, 081950, 081960, 081980, 071900

Award Year End: September 30, 2008

*Specific Requirement:* Special Tests and Provisions – Verification of Free and Reduced Price Applications

*Criteria:* In accordance with the Eligibility Manual for School Meals (January 2008), the LEA must use the Standard Sample Size (formerly Basic), unless it qualifies to use one of the two alternative sample sizes.

*Condition:* The School District was required to use the Standard Sample Size for verification, since less than 80% of the applications selected for verification during school year 2006-2007 responded to the request for additional income information. Under the Standard Sample Size, applications are to be selected from households claiming income within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced meals (error prone).

*Cause:* The School District relied on the Michigan Department of Education Food Service Administrative Policy No. 4 School Year 2007-2008. The School District was not on the “List of Schools Required to Use Basic Sampling for School Year 2007-2008”.

*Questioned Costs:* Not determinable

*Context:* The School District was not included on the List of Schools Required to Use Basic Sampling for School Year 2007-2008 prepared by the Michigan Department of Education, because the School District reported the results of their 2006-2007 verification incorrectly to the Michigan Department of Education. The June 30, 2007 single audit Finding No. 15 identified this reporting error.

*Effect:* The results of verification may have had a different result, if the sample had been selected from error prone applications.

*Recommendation:* The School District should review its verification procedures and provide additional training for staff that performs verification.

*School District Response:* Additional training will be provided to staff and the sample selection will be reviewed by an approved School District employee and signed by the food service director. There is also new management oversight.

**SIGNIFICANT DEFICIENCIES**

See Finding No. 5 in Part B above.

## **SUPPLEMENTAL INFORMATION**

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

December 2, 2008

Board of Education  
School District of the City of Muskegon Heights  
Muskegon Heights, Michigan

We have audited the financial statements of the School District of the City of Muskegon Heights as of and for the year ended June 30, 2008 and have issued our report thereon dated December 2, 2008. Our audit was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on page 23 is provided for purposes of additional analysis and is not a required part of the financial statements or the accompanying Schedule of Expenditures of Federal Awards. Such supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements of the School District of the City of Muskegon Heights and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Brickley DeLong, PLC*

School District of the City of Muskegon Heights  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS**  
For the year ended June 30, 2008

The School District of the City of Muskegon Heights acts as a fiscal agent and passes through federal funds to the following local district

	Federal CFDA number	Pass-through grantor's number	Amount of subrecipient award	Due to (from) subrecipient July 1, 2007	Cash or payments in kind (cash basis)		Expenditures (accrual basis)		Due to (from) subrecipient June 30, 2008
						Prior year (s)	Current year	Total	
<u>Pass-through grants</u>									
<b>Reading First</b>									
Public Schools of the City of Muskegon	84.357	062930 0607	\$ <u>113,366</u>	\$ <u>10,231</u>	<u>10,231</u>	\$ <u>113,366</u>	\$ -	\$ <u>113,366</u>	\$ <u>-</u>
School District of the City of Muskegon Heights							-		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							\$ <u>-</u>		
 Public Schools of the City of Muskegon	 84.357	 082930 0708	 \$ <u>107,671</u>	 \$ <u>-</u>	 \$ <u>89,041</u>	 \$ <u>-</u>	 \$ 107,671	 \$ <u>107,671</u>	 \$ <u>18,630</u>
School District of the City of Muskegon Heights							555,609		
Total expenditures appearing on Schedule of Expenditures of Federal Awards							\$ <u>663,280</u>		



## **CLIENT DOCUMENTS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

December 2, 2008

Michigan Department of Education  
Lansing, Michigan

The School District of the City of Muskegon Heights respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2007 dated November 30, 2007.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT**

**COMPLIANCE**

***U.S. Department of Education***

**Fiscal 2007 Finding No. 1: Title I, Part A**

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Number: 071530 0607

Award Year End: September 30, 2007

*Specific Requirement:* Allowable Costs/Cost Principles

*Condition:* We noted one instance where there was a new line item not in the approved budget. And, there was one instance where a line item exceeded the budget by more than \$10,000.

*Recommendation:* The School District should submit a budget amendment to the Michigan Department of Education when it exceeds the approved budget or adds a new line item of expenditures.

*Current Status:* This recommendation was implemented during the year ended June 30, 2008. *No* similar finding was noted during the single audit for the year ended June 30, 2008.

## **B. FINDINGS—FINANCIAL STATEMENT AUDIT**

### **COMPLIANCE—Continued**

#### ***U.S. Department of Education***

##### **Fiscal 2007 Finding No. 2: Title I, Part A**

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Number: 071530 0607

Award Year End: September 30, 2007

*Specific Requirement:* Special Tests and Provisions, Highly Qualified Teachers and Paraprofessionals

*Condition:* We noted one teacher who was teaching a core academic subject that did not meet the definition of a highly qualified teacher as defined in 34 CFR Section 200.56.

*Recommendation:* The School District should review the regulations on what subjects are included under Core Academic subjects and follow their established procedures regarding the hiring of highly qualified teachers.

*Current Status:* This recommendation was implemented during the year ended June 30, 2008. *No* similar finding was noted during the single audit for the year ended June 30, 2008.

### **SIGNIFICANT DEFICIENCIES**

#### **Fiscal 2007 Finding No. 3: MATERIAL WEAKNESS—General Ledger Account Balance Reconciliations**

*Condition:* There were several account balances that were not reconciled to supporting documentation on a timely basis.

*Recommendation:* The utilization of a monthly closing checklist and written procedures would encourage personnel to review the accuracy of month end balances through analysis of account activity, comparison to supporting documentation and/or reconciliation with detailed schedules.

*Current Status:* See Fiscal 2008 Finding No. 3 for a similar finding.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued**

**SIGNIFICANT DEFICIENCIES —Continued**

**Fiscal 2007 Finding No. 4: MATERIAL WEAKNESS—Timely Posting of Transactions**

*Condition:* We noted that cash receipts and payroll transactions are not being posted to the general ledger timely.

*Recommendation:* The School District should established internal control procedures over the timely posting of transactions to the general ledger.

*Current Status:* See Fiscal 2008 Finding No. 1 for a similar finding noted for cash receipts.

**Fiscal 2007 Finding No. 5: Segregation of Payroll and Cash Receipt Procedures**

*Condition:* Certain employees have access to both physical assets and the related accounting records or all phases of a payroll and cash receipt transactions.

*Recommendation:* Payroll should be reviewed by an appropriate official. The receipt and opening of mail and endorsement of checks should be segregated from the depositing and recording in the general ledger.

*Current Status:* See Fiscal 2008 Finding No. 2 for a similar finding noted for cash receipts.

**Fiscal 2007 Finding No. 6: Journal Entry Procedures**

*Condition:* We noted that some journal entries lack supporting documentation and approval by an appropriate official.

*Recommendation:* A formal record should be kept of all journal entries made and the details supporting those entries. The journal entries should also be reviewed and approved by an appropriate official.

*Current Status:* This recommendation was implemented during the year ended June 30, 2008. *No* similar finding was noted during the single audit for the year ended June 30, 2008.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued**

**SIGNIFICANT DEFICIENCIES —Continued**

**Fiscal 2007 Finding No. 7: Long Outstanding Checks**

*Condition:* We noted certain checks have been outstanding and maintained on bank reconciliations for periods in excess of a year.

*Recommendation:* The appropriate entities should be contacted to determine if additional checks should be issued to the entities by the School District. Alternatively, School District personnel should make a determination as to whether such long outstanding items should be written off.

*Current Status:* This recommendation was implemented during the year ended June 30, 2008. *No* similar finding was noted during the single audit for the year ended June 30, 2008.

**Fiscal 2007 Finding No. 8: Internet Application Controls**

*Condition:* We noted that multiple personnel use the same user name and password to access the school lunch reporting and meal claim website.

*Recommendation:* The implementation of individual password/logins to track individual user activity could reduce the opportunity for unauthorized activity and provide a way to hold personnel accountable for their actions.

*Current Status:* This recommendation was implemented during the year ended June 30, 2008. *No* similar finding was noted during the single audit for the year ended June 30, 2008.

**Fiscal 2007 Finding No. 9: Cash Receipt Deposits**

*Condition:* We noted several receipts that were not deposited in a timely manner.

*Recommendation:* All cash receipts should be deposited within a week of receipt.

*Current Status:* This recommendation was implemented during the year ended June 30, 2008. *No* similar finding was noted during the single audit for the year ended June 30, 2008.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued**

**SIGNIFICANT DEFICIENCIES—Continued**

**Fiscal 2007 Finding No. 10: City Payroll Tax Withholding**

*Condition:* We noted city withholdings were not remitted to the city monthly as required.

*Recommendation:* All payroll withholdings should be remitted in accordance with prescribed timelines.

*Current Status:* This recommendation was implemented during the year ended June 30, 2008. *No* similar finding was noted during the single audit for the year ended June 30, 2008.

***U.S. Department of Agriculture***

**Fiscal 2007 Finding No. 11: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 061970, 071970, 061950, 061960, 071950, 071960,  
071980, 060900, 061900, 070900, 071900

Award Year Ends: September 30, 2006 and September 30, 2007

*Specific Requirement:* Eligibility, Reporting, and Special Tests and Provisions – Verification of Free and Reduced Price Applications

*Condition:* There are no internal control procedures in place requiring a review or approval of work performed under the Child Nutrition Cluster eligibility, reporting or verification functions.

*Recommendation:* Review and approval should be implemented and documented for the Child Nutrition Cluster eligibility, reporting and verification functions.

*Current Status:* See Fiscal 2008 Finding No. 5 for a similar finding noted.

## C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

### COMPLIANCE

See Findings 1 and 2 in Part B above.

#### *U.S. Department of Agriculture*

##### **Fiscal 2007 Finding No. 12: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 061970, 071970, 061950, 061960, 071950, 071960,  
071980, 060900, 061900, 070900, 071900

Award Year End: September 30, 2007

*Specific Requirement:* Reporting

*Condition:* We noted that not all claims were supported by accurate meal counts by category and type taken at point of service.

*Recommendation:* The School District should utilize the POS system for all buildings. Monthly summary reports and monthly claims for reimbursement should be reviewed for accuracy.

*Current Status:* See Fiscal 2008 Finding No. 6 for a similar finding noted.

#### *U.S. Department of Agriculture*

##### **Fiscal 2007 Finding No. 13: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 061970, 071970, 061950, 061960, 071950, 071960,  
071980

Award Year End: September 30, 2007

*Specific Requirement:* Reporting

*Condition:* We noted that the annual report submitted to the Michigan Department of Education was not supported by source documents and contained large variances from audited results of operations.

*Recommendation:* The School District should update its accounting records in a timely manner to facilitate a more accurate report. The School District should also maintain its source documents to support the amounts they report.

*Current Status:* This recommendation was implemented during the year ended June 30, 2008. *No* similar finding was noted during the single audit for the year ended June 30, 2008.

**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued**

**COMPLIANCE—Continued**

***U.S. Department of Agriculture***

**Fiscal 2007 Finding No. 14: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 061970, 071970, 061950, 061960, 071950, 071960,  
071980

Award Year End: September 30, 2007

*Specific Requirement:* Special tests and Provisions, Verification of Free and Reduced Price Applications

*Condition:* The School District was required to perform basic sampling for verification. Under basic sampling, applications are to be selected from households claiming income within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced meals. No such applications were selected for verification.

*Recommendation:* The School District should review their verification procedures and provide additional training for staff that performs verification.

*Current Status:* See Fiscal 2008 Finding No. 8 for a similar finding noted.

***U.S. Department of Agriculture***

**Fiscal 2007 Finding No. 15: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 061970, 071970, 061950, 061960, 071950, 071960,  
071980

Award Year End: September 30, 2007

*Specific Requirement:* Special tests and Provisions, Verification of Free and Reduced Price Applications

*Condition:* We noted that the verification results reported were not accurate and the number of approved applications reported was incorrect.

*Recommendation:* The School District should review their verification reporting procedures and provide additional training for staff that performs verification. The School District should also implement a procedure for reviewing the results of verification.

*Current Status:* This recommendation was implemented during the year ended June 30, 2008. *No* similar finding was noted during the single audit for the year ended June 30, 2008.



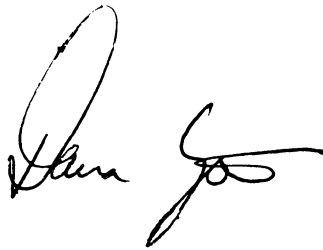
Michigan Department of Education  
December 2, 2008  
Page 8

**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued**

**SIGNIFICANT DEFICIENCIES**

See Finding 11 in Part B above.

Sincerely,

A handwritten signature in black ink, appearing to read "Dana Bryant", with a stylized flourish at the end.

Dana M. Bryant  
Superintendent

**CORRECTIVE ACTION PLAN**

December 2, 2008

Michigan Department of Education  
Lansing, Michigan

The School District of the City of Muskegon Heights respectfully submits the following Corrective Action Plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:

Brickley DeLong, PLC  
P.O. Box 999  
Muskegon, Michigan 49443

Audit period: June 30, 2008

The findings from the Schedule of Findings and Responses for the year ended June 30, 2008 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT**

**COMPLIANCE**

There were *no* compliance findings in relation to the financial statement audit.

**SIGNIFICANT DEFICIENCIES**

**Fiscal 2008 Finding No. 1: Cash Receipts Procedures**

*Recommendation:* The School District should establish internal control procedures over the timely receipting and posting of transactions to the general ledger.

*Action Taken:* Cash receipts will be receipted and posted to the general ledger timely.

**Fiscal 2008 Finding No. 2: Segregation of Cash Receipts Procedures**

*Recommendation:* The receipt and opening of mail and endorsement of checks should be segregated from the depositing and recording in the general ledger.

*Action Taken:* Cash receipt procedures will be segregated.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued**

**SIGNIFICANT DEFICIENCIES—Continued**

**Fiscal 2008 Finding No. 3: Payroll-Related Accrual Account Balance Reconciliations**

*Recommendation:* The utilization of a monthly closing checklist and written procedures would encourage personnel to review the accuracy of month end balances through analysis of account activity, comparison to supporting documentation and/or reconciliation with detailed schedules.

*Action Taken:* Payroll-related accrual accounts will be reconciled on a monthly basis.

**Fiscal 2008 Finding No. 4: Athletic Gate Receipts**

*Recommendation:* The athletic gate receipts should be collected, reconciled and deposited intact on a regular basis. All athletic expenditures should be paid by check through the School District's established purchasing procedures. All transactions should be recorded in the general ledger at gross.

*Action Taken:* The issue was identified by the School District's internal control process and established purchasing procedures were reviewed and discussed with the Athletic Fund management team, providing further clarity. Subsequent testing by School District personnel has shown this issue to be resolved.

***U.S. Department of Agriculture***

**Fiscal 2008 Finding No. 5: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 071970, 081970, 071950, 071960, 081950, 081960,  
081980, 070900, 071900

Award Year Ends: September 30, 2007 and September 30, 2008

*Recommendation:* Review and approval procedures should be implemented and documented for the Child Nutrition Cluster reporting and verification functions.

*Action Taken:* The School District's internal control for this process requires review by two individuals, a representative of the management company and a School District employee. As a method to strengthen the accuracy of the report submission, the management company's director will again review and sign off on the report prior to submission. Also, there has been a change in food service management assigned to the School District.

## C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

### COMPLIANCE

#### *U.S. Department of Agriculture*

##### **Fiscal 2008 Finding No. 6: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 071970, 081970, 071950, 071960, 081950, 081960,  
081980, 070900, 071900

Award Year End: September 30, 2007 and September 30, 2008

*Recommendation:* The School District should utilize the POS system for all buildings. Monthly summary reports and monthly claims for reimbursement should be reviewed for accuracy.

*Action Taken:* The School District and management company has purchased new POS computer systems and software has been updated for all buildings. Additional training will be provided for employees, ensuring accurate meal count records. Also, there has been a change in food service management assigned to the School District.

#### *U.S. Department of Agriculture*

##### **Fiscal 2008 Finding No. 7: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 081970, 081950, 081960, 081980, 071900

Award Year End: September 30, 2008

*Recommendation:* School District personnel should verify that the data entered into the Meal Magic software and the resulting eligibility determination agrees to the approved paper application.

*Action Taken:* During the fiscal year ending June 30, 2009, the School District will implement this recommendation.

## C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

### COMPLIANCE—Continued

#### *U.S. Department of Agriculture*

#### **Fiscal 2008 Finding No. 8: Child Nutrition Cluster**

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 081970, 081950, 081960, 081980, 071900

Award Year End: September 30, 2008

*Recommendation:* The School District should review its verification procedures and provide additional training for staff that performs verification.


*Action Taken:* Additional training will be provided to staff and the sample selection will be reviewed by an approved School District employee and signed by the food service director. There is also new management oversight.

### SIGNIFICANT DEFICIENCIES

See Finding No. 5 in Part B above.

If the Michigan Department of Education has questions regarding this plan, please call Dana M. Bryant at (231) 830-3221.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dana M. Bryant', with a stylized flourish at the end.

Dana M. Bryant  
Superintendent

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

December 2, 2008

Board of Education and  
Dana M. Bryant, Superintendent  
School District of the City of Muskegon Heights  
Muskegon Heights, Michigan

In planning and performing our audit of the financial statements of the School District of the City of Muskegon Heights as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the School District of the City of Muskegon Heights's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the attached deficiencies to be significant deficiencies in internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weakness, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



## SIGNIFICANT DEFICIENCIES

Recommendation 1: Cash receipts should be prepared and posted timely.

During our audit, we noted that prenumbered receipts were not prepared timely and cash receipts were not posted to the general ledger timely.

Timely processing and posting of receipts would help ensure accurate accounting records, increase the efficiency of performing bank reconciliations in a timely manner, and provide management with current financial information.

Recommendation 2: The segregation of duties within the cash receipts function should be improved.

During our audit, we noted that the same individual in the cash receipts function is responsible for opening the mail, endorsing checks, making bank deposits, and posting activity to the general ledger. The maintenance of these responsibilities by one individual provides the opportunity for errors or misappropriation of funds to go undetected.

The segregation of duties within the cash receipts function, including the segregation of the receipt and opening of mail and endorsement of checks from the depositing and recording in the general ledger, would significantly improve internal control.

Recommendation 3: Payroll-related accrual accounts should be reconciled to detailed supporting documentation on a timely basis.

During our audit, we noted certain payroll-related accrual accounts were not reconciled to supporting documentation on a timely basis.

Reconciliation of payroll-related accrual accounts on a timely basis would reduce the possibility of misstatements.

Recommendation 4: Athletic Department cash receipts and cash disbursement procedures should be improved.

During our audit, we noted that the Athletic Department utilized gate receipt proceeds to make purchases without going through the established School District purchasing procedures. The athletic gate receipts were then being recorded net of proceeds spent by the Athletic Department.

The utilization of the School District's purchasing policies for making expenditures and the recording of gate receipts at gross and charging expenditures to the proper expenditure accounts would ensure proper recording of such transactions and reduce the opportunity for errors or the misappropriation of funds.

## **SIGNIFICANT DEFICIENCIES—CONTINUED**

Recommendation 5: Review and documented approval procedures should be established for Child Nutrition Cluster reporting and verification of free and reduced price applications.

During our detailed tests of transactions, we noted that the review and documented approval of Child Nutrition Cluster reporting and verification of free and reduced price applications did not occur consistently.

The review and documented approval of Child Nutrition Cluster reporting and verification of free and reduced price applications would likely increase compliance with associated federal regulations and would provide documentation that such review and approval procedures occurred.